



## Web Business Structure Task Force

Report to the ISCTA Executive Board

June 26, 2006

### Purpose

The ISCTA Website Business Structure Task Force was appointed by President Peggy Weitzl (Carroll County) on April 27, 2006 to research alternatives to the current business structure. Task Force Members are; Jeff Garrett, Eric Stierman, representing the Executive Board and David Jamison, Kim Reynolds representing the Senior Policy Group.

Objectives of the Task Force:

- Joint ownership of the Internet clearing account.
- State Sinking Fund protection against bank failure.
- Security of funds – counties assume their proportionate share of risk exposure.
- Website needs to be self-sustaining – revenues should be available to the association to sustain operational cost related to the project.

### Background

The original proposed design of cash flow for the ISCTA Website called for a single clearing account owned by ISCTA and managed by Iowa Interactive. Research by the Website Task Force revealed that an account owned by ISCTA would not be considered public funds and therefore not be protected by the State Sinking Fund against bank failure. The proposed work-around was the establishment of an account owned by a governmental entity, Polk County - what we now refer to as the PCTICA (Polk County Treasurer’s Internet Clearing Account). The PCTICA is a non-interest bearing account. This work-around was never intended to be a permanent solution.

The relationships between Polk County, ISCTA, Iowa Interactive and the other 98 participating counties were established by three contractual agreements as follows:

1. A contract between ISCTA and Iowa Interactive (the “umbrella contract”) (available upon request).
2. A contract between each participating county treasurer and Iowa Interactive (attached).
3. A contract between 98 individual county treasurers and the Polk County Treasurer (attached).

Batch service was added in September, 2003. There were initially two batch clients – Wells Fargo and First American Real Estate Tax Service. In March 2004, the PCTICA account was changed to allow a daily sweep into an interest-bearing account. Polk County requested the change because of new collateralization requirements (legislation) and bank fees associated with the account. Minutes from the Web Policy Group meeting in April 2005 indicate a general consensus that any interest earnings would be “minor” and Polk County should be allowed to retain that interest as compensation for providing treasury management services to the Website project.

The payment engine usage continues to grow through 2004 and 2005 with the addition of portfolio service and new batch customers. In March, 2004 problems are experienced trying to move large batch payments through the payment engine to individual counties. In response, Polk County set up a secondary method of authorizing funds disbursement (Direct Pay) to get money from PCTICA to the counties. The Direct Pay process was necessary again in September, 2004 and March, 2005.

By September, 2005 there were five batch customers, a few county file customers and nearly 100 portfolio customers. The growth proves too much for the payment engine. In September, 2005 the on-line property tax application grinds to a virtual halt and for approximately four hours on Friday, September 30, customers are unable to successfully complete a transaction without some form of complication. The March, 2006 on-line, batch and portfolio tax collections were processed through the payment engine without incident or delay.

At the April 2006 Web Policy Group meeting (April 19, 2006), the Web Policy Group learn that the total amount of interest earned (\$590,099.21) had far exceeded “minor” as stipulated in the amendment to the Polk County contract. For this and other reasons, our Task Force was formed.

## Activities

In the process of fulfilling their charge, the Task Force met with numerous individuals, groups and organizations including:

- State Auditor
- Iowa Interactive – Tim and Kay
- State Treasurer
- Bank of America
- Wells Fargo
- Polk County Treasurer – Mary Maloney and Lee Duin
- IPAIT
- Investment Management Group (IMG)
- Ahlers & Cooney Law Firm – Ivan Webber, Attorney at Law
- Brown, Winick, Graves, Gross, Baskerville, and Schoenebaum Law Firm – Doug Gross, Partner, and Kevin Howe, Attorney at Law

A detailed timeline of the meetings and other activities included with enclosures.

## Findings

1. It is a conflict of interest to have a single project manager responsible for operational decisions that is from the county that owns the Internet Clearing Account.
2. Bank of America stated that collateralization of PCTICA was never an issue.
3. The Direct Pay for moving money was still in place as late as May, 2006. It has since been removed.
4. The sweep account adds risk to the process which is non-compliant with section 3 of the amended contract between participating counties and Polk County.
5. The sweep account was established prior to contract amendments being signed.
6. There is no vote to approve the contract amendment with Polk County in the minutes of Policy Committee meetings.
7. The risk associated with the current structure can be proportionately dispersed to the participating counties based on their volume of funds in the proposed new structure.
8. 28E Organizations are considered “public entities” and accounts owned by such organizations are protected against bank failure by the State Sinking Fund and are automatically subject to audit by the State Auditor, something we have always sought.
9. Large sums of batch payments were sitting in the sweep account for longer than expected – in some cases as long as 21 days; thus contributing to the higher than expected interest earnings. We learned some batch payments are deposited in PCTICA days prior to the record file being sent to Iowa Interactive from which II use balance with.

10. The sweep account appears to violate the 100 accounts restriction of section 3 of the amended contract between Polk and individual counties.
11. It remains unclear which Polk County employees have authorization to move money between the PCTICA and the sweep account.
12. Iowa Interactive authorizes the disbursement of money to the 99 counties but with batch payments this is done upon a verbal “green light” from Ben Lacey. Since Ben is an employee of Polk County and Polk County benefits from interest earned by holding the money, this is a structural flaw and potential conflict of interest.
13. Management of the sweep account by Polk County employees appears to be in violation of section 3 of the amended contract by adding risk.
14. Other members of the audit team (Diane Kiefer and Craig Hufford) saw only the PCTICA bank statements and were not provided sweep account statements.
15. April, 2003 Policy Committee minutes show a motion was made and carried to create a full-time, paid position for treasury management functions upon reaching revenue sharing. October 2003 Lee stated Polk County does not want interest on PCTICA now but that may change in the future depending on time involved for Polk County staff.
16. April, 2005 Policy Group meeting -Lee mentions contracts amended between counties and Polk to sweep to an interest bearing account daily. This results in annual savings of bank related fees for II of approx. \$25,000.00. Interest earnings were \$61,000.00 in September 04 and \$55,000.00 in March 05. Lee indicated higher interest was due to problems on moving money by II. They are working on the process.
17. April, 2005 Policy Committee minutes show a discussion about identifying actual cost of cash management services so that when interest revenue exceeds that cost, the balance should be diverted to ISCTA
18. Polk County admits they were not planning to report interest earnings to the Policy Group prior to the fiscal year end June 30, 2006. Interest earnings information was not on the agenda in October 2005 and only placed on the agenda for April 2006 at the request of SPG member, Kim Reynolds.
19. At the April, 2006 Policy Committee meeting Polk County reported interest earnings from the sweep account in the amount of \$590,099.21. Polk County also reported salary and benefits cost of \$104,698.23.
20. Policy Committee minutes reveal no discussion of risk for Polk County prior to April, 2006.
21. We find no evidence, or have been provided with any quantifiable hard cost to Polk County to cover any additional risk associated with the PCTICA.
22. Polk County has indicated they will not continue to provide treasury management services if Polk County does not own the Internet Clearing Account.
23. Bank of America stated that there would be a decrease in fees if we went to one account and did not sweep to a second account. – Two accounts do have an impact on fees.
24. Bank of America has indicated they need 30 to 60 days to duplicate the PCTICA structure on a new account owned by ICTEA.
25. Changing the merchant account agreements with VISA, MC and Discover is possible prior to September, 2006 collections.
26. Iowa Interactive has not yet responded with time and cost estimates for the desired changes but Tim Erickson has indicated they should be able to accomplish the account change within our time table.
27. There are viable and preferable structures that accomplish the objectives set out in the Purpose statement above without adding risk or cost. In fact, based upon information discovered, a new structure can reduce the risk and cost.

28. Polk County has indicated the PCTICA could have an adverse impact on their bond rating.
29. Polk County has indicated adequate bonding for the current business structure could exceed \$1 million.

## **Recommendations**

After exhaustive research, due deliberation and legal counsel from multiple sources, the Task Force recommends that the ISCTA Executive Board act swiftly to replace the current Website business structure prior to September 1, 2006 by doing the following:

1. Establish a 28E entity with 3 initial members.
  - a. Initial members will be Washington County, Dubuque County and Carroll County
  - b. Entity name = Iowa County Treasurers Egovernment Alliance (ICTEA)
  - c. File the ICTEA 28E agreement with the Secretary of State.
  - d. Obtain Federal ID for ICTEA
2. Open a new interest bearing Internet Clearing Account with Bank of America owned by ICTEA.
  - a. The current filter block and disbursement structure should be duplicated on the new account with a couple of exceptions:
    - No sweep account.
    - The new account structure would need to be set up such that ICTEA has a way to access funds from interest to be used for covering expenses.
  - b. The new account will need to be the account of deposit for the lock box service used by Iowa Interactive.
  - c. Iowa Interactive will need to change payment engine software and merchant agreement accounts to reflect the new ICA.
3. Amend the umbrella contract with Iowa Interactive to:
  - a. Reflect the change from Polk County to ICTEA as the owner of the Internet Clearing Account.
  - b. Remove reference to a "Project Manager" and reflect that operational management of the ISCTA Website is handled by three equal Senior Policy Group members appointed by the President (or Board), who function under the general direction of the Board.
4. To continue participation in the ISCTA Website project, each of the remaining 96 counties that are not part of ICTEA should do the following:
  - a. Sign a new contract with ICTEA that is the same as the current contract they have with Polk County. By doing this quickly, all 99 counties could continue to participate in ISCTA Internet applications without interruption.
  - b. Each county is encouraged to subsequently pursue full ICTEA membership by adoption of the 28E. By signing the contract first, counties can continue to participate while the more time consuming 28E process is pursued.
5. Secure the services of a professional CPA or other appropriate organization for treasury management services.
6. Request that Polk County immediately cease use of the sweep account since it appears to be the source of additional risk with no compensating benefit for ISCTA.
7. In the event that a transition from Polk County to ICTEA is not effected prior to September 1, 2006, request that the PCTICA account be changed to an interest bearing account and that the interest earned be allowed to accumulate until a fair and equitable distribution of interest earnings can be agreed upon.

8. Consider soliciting proposals from other financial institutions in the future for handling the ICA.
9. Consider an RFI or possibly a full RFP at some point in the future for Website hosting and other Internet portal services.

### **Timeline for Transition**

- I. Immediately form the 28E entity (ICTEA) with initial members of Carroll County, Dubuque County and Washington County and file with the Secretary of State.
- II. By July 1, or as soon as possible there after, obtain a Federal ID number for ICTEA.
- III. As soon as ICTEA has a Federal ID, open an account with Bank of America.
  - A Bank of America has indicated they will need 30 to 60 days to duplicate and test the account filters and structure for the ICTEA account.
- IV. Immediately upon obtaining a bank account number with Bank of America, provide the new number to Iowa Interactive.
- V. Immediately upon formation of ICTEA, request counties that wish to continue to participate in the ISCTA Website project sign a contract with ICTEA - accomplished by August 1, 2006.
  - A Counties wishing to become full members of ICTEA can subsequently move forward with adoption and signing of the 28E. If a contract is in place, there is neither required delay nor any urgency to sign the 28E; each county can decide their respective timing. The goal should be full 99 county membership within one year.
  - B Iowa Interactive has indicated that there will need to be a short “freezing” of account activities to successfully transfer from the PCTICA to the ICTEA Internet Clearing Account. Initial estimates were one to two weeks. The goal should be to have this accomplished by August 15, 2006.
- VI. Immediately upon formation of ICTEA and the establishment of an account, seek to amend the “umbrella contract” between Iowa Interactive and ISCTA. – accomplished by July 10th, 2006.
- VII. No delay should occur from the time the Executive Board decides a course of action and pursuit of a qualified company or organization to provide treasury management services.
- VIII. On or before September 1, 2006, reopen payment engine activities under the new account structure.

### **Conclusion**

Since receiving our charge in April until the writing of this report, this Task Force has worked tirelessly to find a viable option to the current structure. Our goal was not to completely recreate a Website business structure but to sustain and perpetuate those characteristics of the current system that are good and replace those components that are flawed. If the highest ideal of the Iowa State County Treasurers Association is service to the citizens of Iowa, then it requires us to find a way to establish our Website project such that it survives any individual among us – it needs to continue to be a valuable service long after anyone of us has retired or moved on.

We believe this report contains a map to a successful transition for the benefit of all 99 counties. By coming together and hanging together through difficulties and challenges, we did something that has never been done before or since in this country. If all eyes remain focused on the future and the considerable mutual benefits of staying together as a whole, there is no reason this can't be the beginning of another successful chapter in our story.

Jeff Garrett, Washington County Treasurer  
Kim Reynolds, Clarke County Treasurer  
Eric Stierman, Dubuque County Treasurer  
Dave Jamison, Story County Treasurer

Enclosures:

- A. New Contracts (except for the amended “umbrella” contract)
- B. Existing contracts (except for the “umbrella” contract)
- C. Presentation to Membership at 2006 May School
- D. Presentation at 2006 June Legislative Workshops
- E. Timeline of activities